

Message Text

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ACTION EB-04

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USMISSION EC BRUSSELS

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C O N F I D E N T I A L LONDON 12736

DEPARTMENT PASS TREASURY AND FRB

LIMDIS GREENBACK

E.O. 11652:XGDS-L

TAGS: EFIN,UK

SUBJECT: UK POSITION ON INTERNATIONAL MONETARY REFORM

REF: EC BRUSSELS 7297

1. ROGER LAVELLE, ASSISTANT SECRETARY HM TREASURY CONFIRMED DISCUSSIONS WHICH TOOK PLACE AT AUGUST 11-12 MEETING OF EC MONETARY COMMITTEE AS OUTLINED INREFTEL. LAVELLE STATED THAT THE 8 TO 1 SPLIT OVER EXCHANGE RATE QUESTION HAD NEVER BEEN MORE PRONOUNCED THAN AT THE CURRENT JUNCTURE. U.K. REPRESENTATIVES WHO ATTENDED THE MEETING EXPRESSED THE VIEW THAT THE FRENCH HAD FURTHER ALIENATED THE "OTHER EIGHT" BY SUGGESTING THAT THEIR PAPER WHICH WAS DISTRIBUTED AT THE MEETING OUTLINING A STEP-BY-STEP RETURN TO FIXED EXCHANGE RATES OFFERED A NEW APPROACH TO SETTLEMENT OF THE ISSUE.

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2. LAVELLE BELIEVES THAT MOST EC COUNTRIES (8 TO 1

AGAIN), ARE PREPARED TO THINK IN TERMS OF A TWO-PART PACKAGE. HE BELIEVES THAT THE GOLD AND QUOTA ISSUES CAN BE RESOLVED AND THE QUESTION OF EXCHANGE RATES LEFT IN SUSPENSE. HOWEVER, THE LIKELIHOOD OF ANY FINAL AGREEMENT AT THE ANNUAL FUND/BANK MEETING, APPEARS DOUBTFUL. HE DID FEEL, HOWEVER, THAT THE FOUNDATION FOR AGREEMENT ON GOLD AND QUOTAS COULD BE LAID DURING THE WASHINGTON MEETINGS ALLOWING AT LEAST SOME "PRETENSE" OF PROGRESS BEING OFFERED IN THE INTERIM COMMITTEE COMMUNIQUE.

3. LAVELLE STATED THAT ON IMF QUOTA ISSUE, HMG WAS LEANING TOWARD THE COMPROMISE PROPOSAL OFFERED BY WITTEVEEN. ON THE HANDLING OF THE IMF GOLD, LAVELLE STATED THAT THE U.K. WOULD SUPPORT A 2/3, 1/6, 1/6 SPLIT WITH WORK ON THE MODALITIES OF ACTUAL IMF SALES LEFT TO THE ED'S. BY THE INCLUSION OF AGREEMENT ON "FRACTIONS", THE U.K. FEELS THAT, AT LEAST IN APPEARANCE, SIGNS OF PROGRESS WILL BE EVIDENCED.

4. LAVELLE ANTICIPATES THAT AT THE EC FINANCE MINISTERS MEETING ON AUGUST 24, CHANCELLOR HEALEY WILL STRONGLY ARGUE IN FAVOR OF A SPLIT PACKAGE WITH A VIEW TOWARD SETTLEMENT OF THE QUOTA AND GOLD ISSUES IN JANUARY.

RICHARDSON

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